

31761 117134445

1996
B308+

Deposit insurance : an
overview of selected foreign
systems

CA1

YL16

- 1992

B308

Background Paper

DEPOSIT INSURANCE: AN OVERVIEW OF SELECTED FOREIGN SYSTEMS

Nathalie Pothier
Economics Division

September 1992



Library of
Parliament
Bibliothèque
du Parlement

**Research
Branch**

The Research Branch of the Library of Parliament works exclusively for Parliament, conducting research and providing information for Committees and Members of the Senate and the House of Commons. This service is extended without partisan bias in such forms as Reports, Background Papers and Issue Reviews. Research Officers in the Branch are also available for personal consultation in their respective fields of expertise.

©Minister of Supply and Services Canada 1992
Available in Canada through
your local bookseller
or by mail from
Canada Communication Group -- Publishing
Ottawa, Canada K1A 0S9

Catalogue No. YM32-2/308E
ISBN 0-660-14838-2

CE DOCUMENT EST AUSSI
PUBLIÉ EN FRANÇAIS

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| INTRODUCTION | 1 |
| INSURANCE AND DEPOSITS | 2 |
| FOREIGN DEPOSIT INSURANCE SYSTEMS | 5 |
| A. United States | 6 |
| B. Japan | 6 |
| C. European Community | 7 |
| D. Germany | 9 |
| E. United Kingdom | 10 |
| COMMENTS AND CONCLUSION | 10 |
| BIBLIOGRAPHY | 12 |
| APPENDIX | |





CANADA

LIBRARY OF PARLIAMENT
BIBLIOTHÈQUE DU PARLEMENT

DEPOSIT INSURANCE: AN OVERVIEW OF SELECTED FOREIGN SYSTEMS

INTRODUCTION

Deposit insurance is a system designed to protect depositors against losses resulting from the failure of an insured financial institution. Financial institutions that hold insured deposits are protected by an insurance fund to which they contribute on certain conditions. The insurance fund is managed so as to cover the insured deposits held by institutions that might not be able to meet their commitments.

Deposit insurance adds the idea of insurance to that of holding deposits and it is one way of illustrating how the activities of a deposit institution differ from those of an insurance company. A very simple comparison of the two types of institution shows both the danger of a bank run, to which a deposit institution might fall victim and is therefore in need of protection, and how the situation is different in the case of insurance. In short, we can consider deposit insurance as a product sold by an insurance company to a deposit institution to insure the deposits of the institution's clients if their behaviour should threaten the soundness of the financial system as a whole.

This document first compares deposit institutions and insurance companies. It gives an overview of various deposit protection systems around the world, illustrating the various degrees of government involvement in this area. This study provides only a brief overview of the deposit protection system in the Canadian context since this question is examined in greater detail in another document.

INSURANCE AND DEPOSITS

There are several systems of deposit insurance across the world, and their characteristics are largely determined by the level of efficiency of the financial system in a given country. Whether in Europe, the United States, or Canada, the activities of the deposit institutions are sometimes concentrated on regional interests, and sometimes on international. The same can be said of insurance companies.

On the whole, deposit institutions and insurance companies can be compared, because they have different characteristics. Table 1 provides a simple comparison of various aspects of the two types of institution (banks and insurance companies), which makes it clear how depositors and insured people react to the particular institution.

It should be noted first of all that deposit-taking institutions offer the same type of product in exchange: money. This is the cornerstone of our financial system. Initially, the activities of deposit institutions were limited to safeguarding the deposits entrusted to them. These institutions subsequently discovered that they could put the money sitting idle in their safes to productive use and thereby generate a profit. They therefore began to use their surplus cash to make loans and investments while maintaining reserves to meet the demands of their depositors. The deposit institution undertakes to hold its depositors' deposits, in one form or another, but above all it undertakes to be able to repay those deposits at any time or within a fixed term, which can change, depending on the nature of the deposit.

Deposits therefore make up the majority of deposit institutions' liabilities.⁽¹⁾ As long as depositors are confident that they can be reimbursed, the institution can generally rely on this money. For banks, the future can become very limited if depositor confidence is shaken. In the case of an insurance company, however, the premium paid is non-refundable and is counted as part of the company's assets. Unlike banks, insurance companies accumulate their funds continually and in principle policy reimbursement does not depend on the behaviour of

(1) Figures from the *Bank of Canada Review* show that deposits accounted for nearly 50% of banks' liabilities in 1990. For the same year, this figure was more than 85% for trust and loan companies.

Table 1

Comparison Between a Bank and an Insurance Company with Reference to Selected Criteria

| | <u>Bank</u> | <u>Insurance company</u> |
|----------------------|---|---|
| 1. Initial situation | 1. accepts a deposit* | 1. receives a premium |
| 2. Horizon | 2. variable | 2. as stipulated by contract |
| 3. Final situation | 3. returns deposit on demand | 3. pays the prescribed benefit (not the premium) in the event of a claim |
| 4. Comments | 4. - deposits are used to make investments and loans; - only a portion of deposits is frozen; - deposits are considered liabilities but are used to increase assets | 4. - surpluses are generated if the insured risks do not occur; - reserves are set aside; - the premiums constitute assets and liabilities are evaluated based on the probability of occurrence of the insured risk |
| | <u>Depositor</u> | <u>Insured</u> |
| 1. Initial situation | 1. makes a deposit | 1. pays a premium |
| 2. Horizon | 2. guided by personal preference | 2. occurrence of the insured risk or duration of the policy |
| 3. Final situation | 3. withdraws the deposit and accrued interest | 3. receives insured benefit or nothing |
| 4. Comments | 4. risks not recovering his deposit if the institution's cash reserves are insufficient | 4. risks not receiving the insured benefit if the company has insufficient reserves |

* Nearly half of deposits in Canadian chartered banks are term and notice deposits.

The other half is made up of demand deposits and non term personal savings deposits (Bank of Canada).

the insured (except at the time the contract is concluded). For insurance companies, the horizon is more easily predictable.

In the final analysis, the deposit institution's situation depends on the depositors' decision to withdraw their money, whereas the insurance company's situation depends on the risk of claims under the insured's insurance policy. All other things being equal, the greatest risk for a deposit institution is that all its depositors will withdraw their deposits at the same time; for an insurance company it is that all its policyholders will simultaneously meet the claim conditions stipulated in their contracts (e.g., for life insurance, they all die at the same time or for disability insurance, they all become disabled at the same time).⁽²⁾

In the general context, the most serious risk is that depositors will withdraw their deposits from all deposit institutions at the same time. This situation could occur if there was a panic or lack of confidence in deposit institutions or in the financial system in general. It starts a kind of chain reaction, which is hard to control once it starts and can seriously harm the system as a whole. Avoiding such an eventuality is the reason for having a deposit protection system.

A distinction must therefore be made between a chain reaction (or general bank run) set off by inaccurate or incomplete information and a justified reaction.⁽³⁾ In the first case, correcting the inaccurate information may be sufficient to restore the situation. Regulation is one means used to ensure the disclosure of information. Regulation may be either public or private, depending on the case. In the second scenario (that is, in the case of a well-founded reaction), a formal (public or private) protection system is necessary to respond to the situation.

Deposit protection may thus be offered by the private or public sector and may be either compulsory or voluntary. In order to choose the most appropriate system, the demand for deposit protection should be examined. Studies have shown that the demand for deposit insurance is linked to a problem of "adverse selection," a term used by economists to designate

(2) By extension, for deposit insurance, it will be agreed that the risk is that all depositors might withdraw their deposits at the same time in several insured institutions.

(3) In his 1988 article "The Truth about Bank Runs," G.C. Kaufman notes some confusion about the phenomenon of runs. He notes that the negative reputation of bank runs may have led to poor public policy and an unfounded concern about the losses of managers and shareholders.

the greater propensity of a risky, as opposed to a stronger, institution to seek insurance. On the whole, the economic literature seems to agree that the phenomenon in the context of deposit insurance is to be interpreted as follows: "the problem of adverse selection is inherent in voluntary deposit insurance systems and therefore such systems are more likely to collapse than compulsory systems."⁽⁴⁾ It is therefore preferable that a deposit insurance system, whether private or public, be compulsory.

There are varying degrees of private sector involvement in deposit protection. Each country's legislative and regulatory framework determines the extent of government involvement. To illustrate this diversity, the next section provides an overview of a number of foreign deposit protection systems.

FOREIGN DEPOSIT INSURANCE SYSTEMS⁽⁵⁾

A number of industrialized countries have established various deposit insurance systems.⁽⁶⁾ Of these, we will pay particular attention to the U.S. system, administered by the Federal Deposit Insurance Corporation (FDIC), and the German system, administered primarily by the Deposit Protection Fund (DPF). The complexity of the U.S. financial system leads us to expect a distinctive deposit insurance system, while the German system illustrates how deposit protection can be provided by the private sector. The nature of the financial systems and government policies help to determine what kind of deposit insurance is desirable.

-
- (4) Charles Calorimis, "Deposit Insurance: Lessons from the Record," *Economic Perspectives*, May-June 1989, cited in R.S. Grossman (ed.), *Deposit Insurance, Regulation, and Moral Hazard in the Thrift Industry: Evidence from the 1930s*, AER, Vol. 82, No. 4, 1992.
- (5) This part is based on information taken primarily from two documents: Task Force on the International Competitiveness of U.S. Financial Institutions of the Committee on Banking, Finance and Urban Affairs, *Committee Print 101-7*, Washington, 1991; and U.S. Government Accounting Office, *Deposit Insurance: Overview of Six Foreign Systems*, February 1991.
- (6) The appendix provides a comparative table of the legislation governing the deposit insurance activities of major commercial banks for eight industrialized countries.

A. United States

The U.S. deposit insurance program is administered by the Federal Deposit Insurance Corporation (FDIC) and was a pioneer in the deposit insurance field; the FDIC was established by legislation in 1934. Under the U.S. system, deposit insurance is compulsory for all commercial banks, regardless of whether they are under federal or state jurisdiction. The national system was set up following a number of bank runs that affected Oklahoma, Nebraska, Texas, Mississippi, North Dakota, South Dakota and the State of Washington, among other states, in the early decades of this century.

Deposits are covered up to US \$100,000 per depositor per institution. Premiums are set as a percentage of the insured deposits held by an institution. In 1991, the premium rate was raised to 0.195% from the previous year's level of 0.126%. In 1990, the US House of Representatives approved legislation designed to eliminate the ceiling on insured deposits and to base premium rates on FDIC administrative decisions.

The United States has the highest premium rate and the highest ceiling for insured deposits of all the countries listed in the appendix, with the exception of Italy.

According to an analysis conducted by the chairman of the New York Federal Reserve,⁽⁷⁾ it appears that institutions in other countries are more motivated to assist an institution in difficulty than are their American counterparts. This behaviour can be explained in part by the history of financial turmoil in the U.S. and by that country's large number of institutions.

B. Japan

In Japan, the deposit insurance system is compulsory and is supported by the government and the private sector. The Japanese Deposit Insurance Corporation (JDIC) was set up in 1971 to protect depositors and maintain the stability of the banking system. It administers the deposit insurance fund, which obtained its initial capital from the Bank of Japan and other government organizations as well as from the banking industry itself. The maximum coverage

(7) Committee Print (1991), p. 148.

provided on bank deposits is 10 million yen per depositor. As in Canada and the United States, the deposit insurance fund is funded by premiums paid by members. The annual premium rate is 0.12% of the total deposits covered. By sponsoring mergers and takeovers, the JDIC also assists institutions experiencing financial insolvency.

C. European Community

Formal deposit insurance is a recent development in Europe. Previously, it was more of an implicit arrangement, based on private initiatives. France has no government deposit guarantees, while in Germany, the guarantee system varies, depending on the nature of the deposit institutions and their role in the system. For instance, as a general rule, there is a more formal protection system for commercial banks than for other types of institution.

In the European common market context, it has been recommended that all member states establish a deposit insurance system for depositors who do not have the means to evaluate the financial policies of the institutions in which they place deposits. The Commission of the EC recommended that its 12 member states formulate a deposit insurance program detailing the co-ordination of related laws, regulations and administrative measures as of the start of 1992. At the time of adoption of the proposal announced by the Vice-President of the European Commission Responsible for Financial Services and Competition Policy, deposit insurance coverage varied. Table 2 presents a comparison of this coverage. While Portugal and Greece offered no guarantees, Italy offered very high coverage.

In Europe, the coverage offered to each depositor is generally limited, and excludes such things as inter-bank deposits. In Germany, however, the maximum coverage in the case of commercial banks is calculated according to their own funds, which are linked to the rules for total loans; consequently, coverage is practically limitless.

This proposed directive⁽⁸⁾ concerning deposit guarantee systems, adopted in the spring of 1992, therefore sets a coverage floor of 15,000 ECUs. This level is intended to protect the depositor but avoids an excessive deposit guarantee which would eliminate all risks

(8) The details of the proposal were announced in an information memo by the Commission of the European Communities, Brussels, 6 May 1992, Document P(92)-28.

and compromise the general stability of the banking sector. In setting its coverage floor, the Commission has taken into consideration the fact that the average level of most deposits is approximately 2,500 ECUs and that the median level of coverage already in effect ranges from 13,200 to 17,400 ECUs. Under this proposal, responsibility for the implementation of a minimum deposit guarantee falls to the country of origin (rather than to the host country). Reimbursement of guaranteed deposits to customers should take place within a three-month period. In short, the guarantee would contribute to raising the level of supervision and consumer protection standards.

Table 2

Comparative Table of Maximum Coverage Offered by Members
of the European Community, for Commercial Banks*

| Country | Coverage (ECUs) |
|--------------------|--|
| Portugal-Greece | No guarantee |
| Spain | 11,700 |
| Belgium-Luxembourg | 11,900 |
| Ireland | 13,200 |
| Netherlands | 17,400 |
| United Kingdom | 21,400 |
| Denmark | 31,500 |
| France | 57,500 |
| Italy | 511,000 |
| Germany | 30% of the institution's own funds (practically unlimited) |

* Coverage usually excludes inter-bank deposits.

Source: Information Memo, CEC, Brussels, P(92)-28.

Under this proposal, the points left to the initiative of the states include the possibility of extending the deposit guarantee, the restriction of coverage to depositors lacking financial experience and the possibility of 90% reimbursement of deposits below a minimum amount.

D. Germany

Germany has no statutory deposit insurance system. However, the major categories of institutions have all formed their own deposit protection systems. As a whole, the deposit insurance system in Germany is the oldest such system among European Community countries, having been established in 1966. The private banks place particular emphasis on protecting depositors; while the other groups (savings banks and co-operative banks) concentrate their efforts more on the solvency of local institutions. This system is private; it does not receive any government support, and its three constituent funds are not linked to any intervention or reimbursement obligation. The system was greatly improved after the failure of the Herstatt Bank in 1974. Nonetheless, the lack of deposit protection by a central bank or by the government can result in enormous losses to large depositors or creditors.

Private commercial banks have had their own deposit protection fund (Deposit Protection Fund of the Federal Association of German Banks) since 1976. This fund is administered by the Federal Association of German Banks; it reimburses depositors and intervenes when member banks are in difficulty. Membership in the fund is voluntary and entails two conditions. To join, institutions must observe the capital requirements of the Federal Banking Supervisory Office (FBSO) and they must be members of the Auditing Association of German Commercial Banks, which may audit a bank at its own discretion. Preventive auditing by this association minimizes losses of funds. Although the Association identifies problems, the FBSO is responsible for taking any necessary corrective action.

The amount of deposit coverage varies according to the bank's absolute level of capital so that insurance for each depositor varies depending on the size of the bank. The types of deposits covered are demand deposits, term deposits and savings deposits. Reimbursements may be limited and determined on a "case by case" basis, depending on the bank. Member banks are charged a premium of 0.03% of total liabilities-deposits per year. Premiums may vary with requirements.

Finally, the public sector banks (savings banks) are guaranteed by their respective municipalities, while the co-operative banks are guaranteed by mutual associations, though the

objectives of these banks are primarily local bank solvency rather than deposit protection. To this end, they have established a principle of assistance to insolvent institutions.

E. United Kingdom

The United Kingdom's Deposit Protection Scheme (DPS) was established in 1979. The DPS is administered by a board under the aegis of the Board of England, which has primary regulatory responsibility. The fund administrators have no independent role in bank supervision. This is a co-insurance system which covers all sterling deposits held by authorized institutions. In 1987, the coverage limit was raised from £10,000 to £20,000. The system covers 75% of these funds, per depositor. The premiums vary with the amount of the deposits and the need to replenish the fund, imposing relatively higher costs on small banks.

COMMENTS AND CONCLUSION

This overview of various types of deposit guarantee in place in Europe, Japan and the United States reveals the interest in an efficient financial system and in protecting depositors. The systems differ with respect to the mechanics of implementation; however, four main factors may be identified:

- type of insurance: mandatory and/or voluntary (private, public);
- type of coverage: amount and deposits eligible;
- ongoing funding arrangements: fixed or variable premiums; and
- role of supervision: autonomous, state, or mixed.

In reality, the type of insurance constitutes the main difference among systems. For instance, when deposit protection is private (as in Germany), it may also be voluntary. The deposit institutions purchase insurance by paying a premium to insure their deposits. Coverage is determined by the provisions of the contract negotiated and may cover all or only a portion of the deposits held. Basic conditions may have to be met before an institution is eligible for insurance and, furthermore, indemnities may vary from case to case and on an "ex post" basis;

that is, according to the funds available or on certain management decisions at the time of reimbursement.

When deposit protection is a government responsibility, participation is usually mandatory. However, responsibility may be shared between the public and private sectors, in which case the designated institutions are required to buy insurance. The premium may be prescribed and constitutes a cost for the insured institution. In addition, regulatory coverage requirements may determine the amount and/or nature of the eligible deposits.

In all cases (mandatory, voluntary or mixed), there is some form of supervision, whose scope may extend beyond the issue of deposit insurance. Such supervision is exercised by government, in the broader context of ensuring the general soundness of institutions. In a private system, supervision is based on criteria that must be met by the institutions as a condition for obtaining insurance; this is in the same way that a life insurance company would require a medical examination to confirm that an applicant is in good general health and does not suffer from specific chronic problems such as heart disease. The type of supervision exercised in a private framework is, in this case, peculiar to deposit insurance. However, the criteria involved and the tools used for this purpose may be the same as those used in a general supervision context. Indeed, most financial institutions are subject to various regulatory requirements set by governments within the context of their economic and monetary policies.

Consequently, supervision in the deposit insurance context may respond to the needs of both the insurer and the legislator. The roles assigned to the supervisory bodies responsible for financial institutions, the roles assigned to the bodies responsible for protecting deposits, and the roles assigned to the private sector must all be taken into account in any examination of deposit insurance.

In Canada, the two bodies⁽⁹⁾ responsible for insuring the deposits held by deposit institutions have a similar structure; one is federal, the other provincial. Each insures different deposit institutions, depending on how they are incorporated and where they do business. On

(9) The Canada Deposit Insurance Corporation (CDIC) is responsible for providing protection to the depositors of federal deposit institutions and provincial trust and loan companies not covered by a provincial system. The Régie d'assurance-dépôts du Québec (RADQ) is responsible for protecting the depositors of deposit institutions which do business in Quebec or are incorporated under Quebec law.

the whole, however, the deposit insurance system is mandatory.⁽¹⁰⁾ The Canadian deposit insurance system is government-run and participation by deposit-holding institutions is mandatory. Coverage and financing arrangements are prescribed by law. To become a CDIC member, an institution must pay a premium of 1/10 of 1% of insured deposits. The maximum coverage of deposits is set at \$60,000 and is intended to protect small depositors. The same supervisory bodies responsible for monitoring the general soundness of financial institutions are also responsible for supervising deposit institutions. However, these bodies do not provide deposit insurance. Consequently, there must be genuine links and communication between insurers and supervisory bodies in order to ensure that deposit institutions comply with the conditions of their insurance contract.

Deposit insurance systems may vary and may serve more than one purpose. However, the primary objective of deposit insurance, which is to deal with the problem of runs on banking institutions, must remain clear and the flexibility of any other objectives that might be set must not be overlooked. In this respect, the central question remains that of determining the relative weight of the public and private sectors in the deposit insurance system.

BIBLIOGRAPHY

Bank of Canada. *Bank of Canada Review*. Monthly, 1991.

Calorimis, Charles. "Deposit Insurance: Lessons from the Record." *Economic Perspectives*, Vol. 13, May/June 1989, p. 10-30 (taken from R.S. Grossman, *Deposit Insurance, Regulation, and Moral Hazard in the Thrift Industry: Evidence from the 1930s*. AER, Vol. 82-4, 1992).

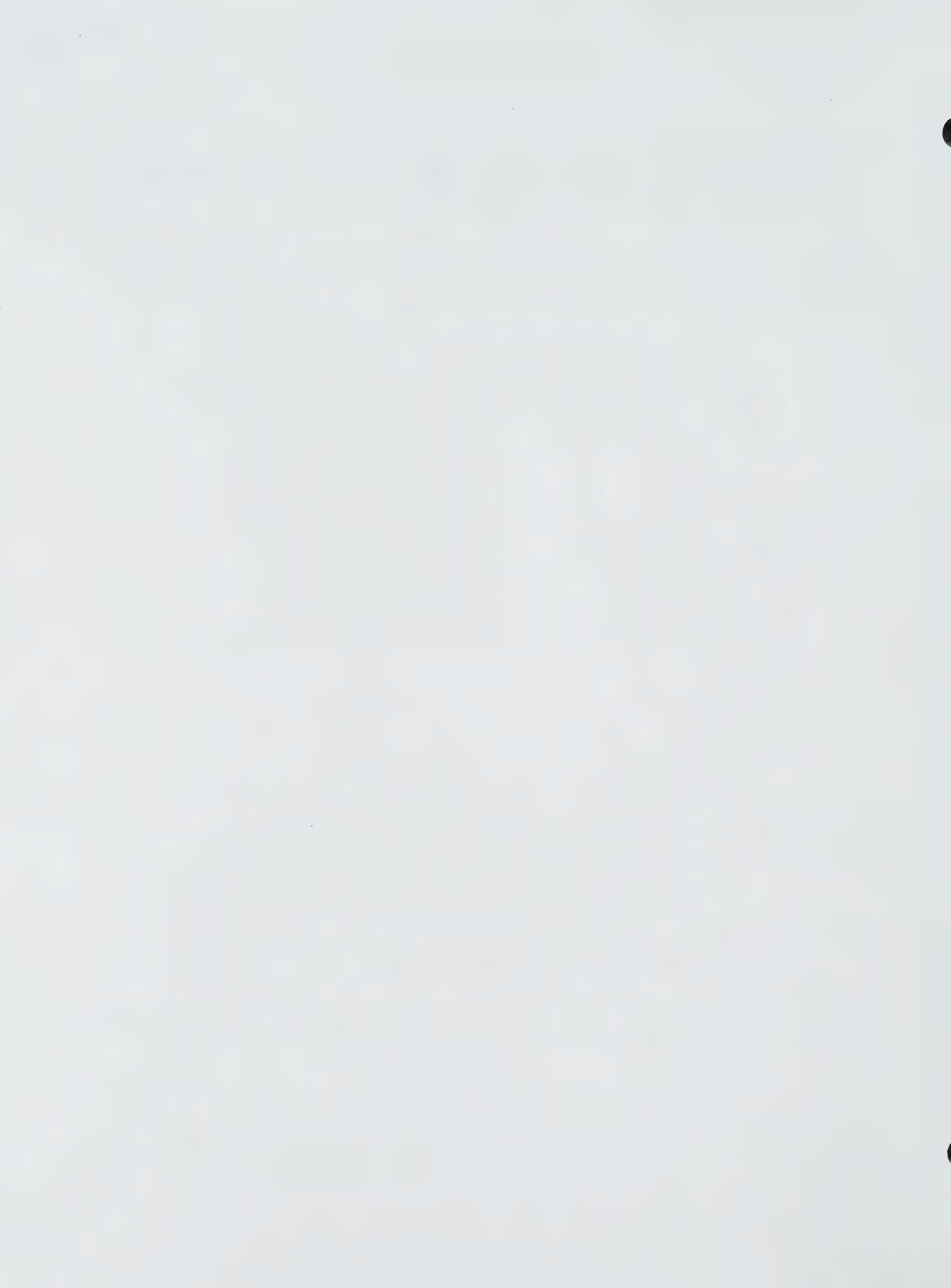
Commission of the European Communities. Information Memo, P(92)-28. *Commission Approves Proposal for Deposit Guarantee Directive*. Brussels, 6 May 1992.

Kaufman, G.C. "The Truth About Bank Runs." In C. England and T. Huertas. *The Financial Services Revolution: Policy Directions for the Future*. Kluwer Academic Publishers, Bonson, 1988, p. 9-40.

(10) Federal legislation governing financial institutions stipulates that to accept deposits, an institution must be a member of the CDIC.

United States. Task Force on the International Competitiveness of U.S. Financial Institutions of the Committee on Banking, Finance and Urban Affairs. *Committee Print 101-7*. House of Representatives, 101st Congress, 2nd Session, October 1990, Washington, 1991.

United States, Government Accounting Office. *Deposit Insurance: Overview of Six Foreign Systems*. GAO/NSIAD-91-104, February 1991.



APPENDIX

SUMMARY OF LAWS AFFECTING DOMESTIC ACTIVITIES OF COMMERCIAL BANKS IN MAJOR INDUSTRIALIZED COUNTRIES

| | <u>JAPAN</u> | <u>EUROPEAN COMMUNITY (EC)</u> | <u>WEST GERMANY</u> | <u>UNITED KINGDOM</u> |
|---|---|--|--|--|
| <u>Principal Regulators of Commercial Banks</u> | Ministry of Finance (MOF): | | Federal Banking Supervisory Office (FBSO); Deutsche Bundesbank. | Bank of England. |
| <u>Branching Restrictions</u> ----Geographic | None. | None for EC-chartered banks, which can branch Community-wide effective no later than January 1, 1993. Banks not based in the EC may branch only as permitted by each country's supervisory authorities. | None. | None. |
| ----Regulatory | Prior authorization by MOF required. Number of new branches limited by MOF. | EC-chartered banks must notify their home country's supervisory authorities. | Notification to the FBSO and the Bundesbank required. | Prior notice to the Bank of England required. |
| <u>Scope of Permissible Activities</u> ---Securities | Japanese banks are generally limited to (1) purchasing and selling securities for customer accounts or for the investment purposes of the bank; and (2) underwriting and dealing in commercial paper and government, government-guaranteed, and municipal securities. Non-Japanese banks may conduct securities activities through Japanese branches of not more than 50%-owned affiliates. | The Second Banking Directive (SBD) permits an EC-chartered bank — through a branch or the cross-border provision of services — to engage in securities activities anywhere in the Community, to the extent permitted by the bank's home country supervisor. A proposed Investment Services Directive (ISD) would provide for liberalization of host-state rules governing access to organized securities markets for both banks and securities firms from other member states. | Full range of activities permitted. | Full range of activities permitted; usually conducted through subsidiaries of parent banks. |
| ----Insurance | Not permitted. | Legislation prevents banks from engaging directly in insurance underwriting activities, although banks may establish insurance subsidiaries permitted by national law. EC directives do not preclude banks from engaging directly in insurance agency and brokerage activities permitted by the home country; however, host-country approval would be required for branches in other member states to engage in these activities. | Full range of activities permitted, but only through subsidiaries (or parents) of banks. | Full range of activities permitted, but only through insurance-company subsidiaries (or parents) of banks. |
| ----Industrial Investments | Limited to holding 5% interests. | SBD forbids a bank from investing more than 15% of its capital in a non-financial company; such investments are limited, in the aggregate, to 60% of the bank's capital. | Individual interests, which are mostly held directly through the bank, are not limited. However, the total amount of these investments is limited to the bank's capital. | Permitted subject to consultations with the Bank of England. |

| <u>FRANCE</u> | <u>ITALY</u> | <u>CANADA</u> | <u>UNITED STATES</u> |
|---|---|---|---|
| Banking Commission; Committee on Bank Regulation; Committee on Credit Institutions; Bank of France. | Interministerial Committee for Credit and Savings (CICR); Bank of Italy. | Office of the Superintendent of Financial Institutions (OSFI). | Federal Reserve Board; Comptroller of the Currency; Federal Deposit Insurance Corporation; State banking regulators. |
| None. | None. | None. | State-chartered banks may branch to the extent permitted by State law. National banks may branch only in a single state and only to the extent State banks may branch in that state (McFadden Act). However, bank holding companies may own banks in more than one state if expressly permitted by State law (Douglas Amendment). |
| Notification to the Bank of France required. | Prior notice to the Bank of Italy required. | None for widely-held Canadian banks and, pursuant to the U.S.-Canada Free Trade Agreement, for U.S.-owned Canadian bank subsidiaries. Prior authorization required for other banks. | Authorization by federal or state agencies required. |
| Full range of activities permitted. | Full range of activities permitted, either directly or through subsidiaries, except that banks are not permitted to execute transactions on exchanges. | Full range of activities permitted through subsidiaries of parent banks. Canadian banks also conduct a significant amount of securities activities directly. | Underwriting and dealing in government securities permitted. Underwriting and dealing in other debt and equity securities permitted through a bank holding company (BHC) subsidiary provided that (1) the revenues of such activities do not exceed 10 percent of the total revenues of the subsidiary; (2) bank affiliates are insulated by appropriate firewalls; (3) BHC is well-capitalized; and (4) policies and procedures are reviewed by the Federal Reserve Board before the activities are commenced. |
| Full range of activities permitted through insurance-company subsidiaries (or parents) of banks. | Equity holdings in insurance enterprises are permitted, within limits. Banks offer standardized insurance products, often jointly with banking and financial products. | Not permitted. The government has proposed unlimited activities through subsidiaries of parent banks. | Restricted powers for national banks. Powers for state banks vary according to state law. Bank holding companies and their nonbank subsidiaries are restricted to specified insurance agency activities and limited, non-property, credit-related underwriting activities. |
| Individual interests are limited to 15% of the bank's capital. The total amount of these investments is limited to 60% of the bank's capital. | Not permitted except for trading and underwriting purposes, or in connection with merchant banking activities. | Limited to holding 10% interests. | Generally limited to holding 5% interests through a bank holding company. |

SUMMARY OF LAWS AFFECTING DOMESTIC ACTIVITIES OF COMMERCIAL BANKS IN MAJOR INDUSTRIALIZED COUNTRIES

| | <u>JAPAN</u> | <u>EUROPEAN COMMUNITY (EC)</u> | <u>WEST GERMANY</u> | <u>UNITED KINGDOM</u> |
|---|--|--|--|---|
| <u>Capital Requirements</u> | Minimum initial capital of ¥1 billion (US \$7.2 million) for city banks, regional banks, trust banks, and branches of foreign banks and ¥10 billion (US \$72 million) for long-term credit banks and the specialized foreign-exchange bank.* | Directives provide for capital adequacy based on the Basle Accord. Proposed directive for capital adequacy for securities firms also deals with capital requirements for securities activities of banks. | Minimum initial capital is DM 6 million (US \$3.8 million). The Banking Act requires "adequate" capital as determined by Principles issued by the FBSO, in agreement with the Bundesbank." | Minimum initial capital of £1 million (US \$1.9 million) for banks incorporated in the U.K. There is no minimum capital requirement for branches of foreign banks. The Bank of England establishes minimum capital for each bank to reflect its own circumstances.* |
| | * These countries comprise 7 of the 12 signatories to the 1988 Basle Accord, which provides for a minimum capital requirement of 8% of risk-weighted assets. | | | |
| <u>Deposit Protection Scheme</u> | Deposit Insurance Corporation. | (See <i>Comments</i> sub-entry directly below.) | Deposit Protection Fund. | Deposit Protection Fund. |
| —Administration and Membership | Mixed public-private; mandatory. | | Private; voluntary. Practically all commercial banks are members. | Mixed public-private; mandatory. |
| —Maximum Protection Per Depositor | ¥10 million (US \$72,000). | | 30% of bank's capital and disclosed reserves. | 75% of £20,000 (75% of US \$37,000). |
| —Annual Cost/Premiums | 0.012% of deposits. | | 0.03% of total deposits (excluding interbank deposits). | Varies; payments are made to ensure a standing fund of between £5 million and £7 million. |
| —Comments | | Recommendation issued in 1986 that each member state have some type of scheme in place by 1990. A directive harmonizing essential elements of national schemes and providing for coverage of branch deposits by home member states is expected to be proposed in 1991. | | |
| <u>Coverage Available For</u> | | | | |
| —Foreign Branches of Domestic Banks | Yes | | Yes | No |
| —Domestic Branches of Foreign Banks | No | | Yes | Yes |
| —Interbank Deposits | No | | No | No |
| —Foreign Currency Deposits | No | | Yes | No |
| <u>Reserve Requirements</u> | Yes; interest-free. Maximum rates of 2.5% for demand deposits and 1.75% for time deposits apply to amounts in excess of ¥2.5 trillion (US \$18.1 billion). | | Yes; interest-free. Maximum rate of 12.1% for demand deposits applies to amount of demand deposits of residents in excess of DM 100 million (US \$64 million); rates of 4.95% for time deposits, 4.15% for savings deposits, and 12.1% for demand deposits of non-residents. | Yes, for banks with more than £10 million (US \$19 million) in sterling liabilities (excluding interbank deposits) maturing in less than two years. Rate of 0.45% of eligible liabilities. Reserve requirements are not used for monetary policy purposes. |

| <u>FRANCE</u> | <u>ITALY</u> | <u>CANADA</u> | <u>UNITED STATES</u> |
|--|---|---|---|
| Minimum capital of FFr 15 million (US \$2.9 million) for banks (including branches of foreign banks) with total assets under FFr 1.2 billion (US \$230 million) and FFr 30 million (US \$5.7 million) for banks with greater assets. The regulatory authorities usually request higher capital amounts for new banks.* | Minimum initial capital of 25 billion lire (US \$21.3 million) for banks incorporated as joint stock companies, and 12.5 billion lire (US \$10.7 million) for branches of foreign banks.* | The Bank Act requires "adequate" capital. Capital requirements are traditionally specific to each individual bank.* | Minimum initial capital generally \$1 million for national banks; varies for state banks. Federal and state operating capital requirements are typically based on a percentage of bank assets.* |
| weighted assets by year-end 1992. Some other countries, not signatories to the Accord, have implemented similar risk-based capital | | | |
| Deposit Guarantee Fund. | Interbank Deposit Protection Fund. | Canada Deposit Insurance Corporation. | Federal Deposit Insurance Corporation. |
| Private; mandatory. | Private; voluntary. Almost all commercial banks are members. | Government; mandatory for Federal institutions. | Government; mandatory for almost all banks. |
| FFr 400,000 (US \$76,000). | 100% of first 200 million lire (US \$171,000); 75% of next 800 million lire (up to US \$853,000). | C\$60,000 (US \$52,000). | US \$100,000. |
| Contributions based on the bank's total deposits, but limited to FFr 1 billion (US \$190 million) annually, are assessed only when the Fund makes payments. | Contributions based on the bank's total deposits and outstanding loans, less capital and free reserves, are assessed only when the Fund makes payments. | 0.167% of insured deposits. | 0.12% of insured deposits for most banks (1990). (Rate of 0.195% has been proposed for 1991.) |
| Required for branches of foreign banks if they accept more than a <i>de minimis</i> amount of deposits of less than US \$100,000. | | | |
| No | Yes | No | No |
| Yes | Yes | Not applicable | Yes |
| No | Correspondent accounts only | Yes | Yes |
| No | Yes | No | Yes |
| Yes; interest-free. Rate of 5.5% for demand deposits and 3.0% for time deposits. | Yes; interest-bearing at 8.5% on that part of the reserve allocated against lire deposits in the form of certificates of deposit and at 5.5% on the remainder of the reserve. Maximum rate of 22.5% of total customer deposits, net of capital. | Yes; interest-free. "Primary reserves" of 10% of demand deposits and 1-3% of time deposits. Banks must also maintain certain "secondary reserves." Although the Canadian Government announced in 1986 that it would gradually abolish reserve requirements, it has not yet introduced the necessary implementing legislation. | Yes; interest-free. Maximum rate of 12% for transaction accounts applies to amount of transaction accounts in excess of \$40.4 million; rate of 3% for short-term time deposits. |

SUMMARY OF LAWS AFFECTING DOMESTIC ACTIVITIES OF COMMERCIAL BANKS IN MAJOR INDUSTRIALIZED COUNTRIES

| | <u>JAPAN</u> | <u>EUROPEAN COMMUNITY (EC)</u> | <u>WEST GERMANY</u> | <u>UNITED KINGDOM</u> |
|--------------------------------------|---|---|--|--|
| <u>Mergers</u> | Require MOF approval. | Effective September 21, 1990, approval by EC Commission generally required if companies have combined worldwide revenue of five billion ECU's (US \$6.8 billion). (1/10th of assets used instead of revenue for banks and insurance companies.) | Subject to control by German Cartel Office. | Subject to review by U.K. Monopolies and Mergers Commission. |
| <u>Acquisitions of Bank Stock</u> | Bank holding companies are prohibited. In addition, companies engaged in financial business are prohibited from acquiring more than 5% of the stock of a Japanese bank. The Fair Trade Commission may grant exemptions to the prohibition. | SBD provides that crossing thresholds of 20, 33, and 50 percent requires disclosure to the home country of the company whose stock is being acquired; the home country can oppose the acquisition if it is not satisfied with the acquirer's suitability. | No regulatory approvals required. No statutory restrictions on owners. | Crossing the 15, 50, and 75 percent thresholds require prior notice to the Bank of England, which may reject acquisition if it determines the acquirer is not a "fit and proper" person or company. No statutory restrictions on owners. |
| <u>Consumer Protection Laws</u> | | | | |
| ---Consumer Credit | Yes. | Directive adopted in February 1990. | Yes. | Yes. |
| ---Advertising | Yes. | Directive proposed. | Yes. | Yes. |
| ---Other | Interest rate on consumer loans regulated. | Recommendations issued relating to electronic payment and credit cards and transparency of conditions for cross-border payments. | | Consumer Credit Act 1974 regulates consumer loans £15,000 (US \$28,000) or less (excluding loans secured by real estate). |
| <u>Restrictions on Foreign Banks</u> | | | | |
| -Entry | Entry has been through branches. Official national treatment policy; statutory requirement for reciprocal national treatment. In practice, foreign banks have been limited to a few branches each. In principle, restrictions on the number of branches have not been imposed on foreign banks. | A non-EC banking organization may be prohibited from establishing or acquiring an EC subsidiary if its home country does not offer banks from each EC country "national treatment . . . and effective market access," a standard characterized by EC officials as "genuine national treatment." Existing EC subsidiaries will be grandfathered. | Entry may be either through a branch or by the establishment of a subsidiary. A license for a branch may be refused if the home country of the entering foreign bank does not offer German banks national treatment. | Entry may be either through a branch or by the establishment of a subsidiary. |
| -Other | Certain foreign banks have been granted licenses to establish trust banking subsidiaries and to hold up to 50% of the stock of securities affiliates branching into Japan. | | German bank subsidiaries of foreign banking institutions have the same powers as German banks. | The Treasury Ministry may refuse or revoke a foreign bank's authorization to do business in the U.K. or restrict its activities if the foreign bank's home country discriminates against U.K. persons in investment, insurance, or banking business. |
| | | | Foreign branches are ineligible to underwrite government bonds or manage syndicates of DM-denominated bonds. | |

| <u>FRANCE</u> | <u>ITALY</u> | <u>CANADA</u> | <u>UNITED STATES</u> |
|---------------|--------------|---------------|----------------------|
|---------------|--------------|---------------|----------------------|

Require prior authorization by the Committee on Credit Institutions.

Require prior approval of the Bank of Italy.

Require approval of Minister of Finance.

Require prior approval of appropriate federal and state regulators and may be challenged by the Department of Justice.

Crossing the 5% threshold requires prior notification to the Committee on Credit Institutions. Crossing the 10, 20, and 33 1/3 percent thresholds, or obtaining a "controlling interest" requires the prior approval of the Committee. No statutory restrictions on owners.

Acquisition of more than 2% of the voting shares of a bank, as well as subsequent increases or decreases in excess of 1%, must be disclosed to the Bank of Italy.

Shares of the largest domestic banks must be widely owned. There is 10% ceiling on group and individual stock ownership, except where approved by the government for newly incorporated banks. Except for Canadian bank subsidiaries of foreign banks, total holdings by nonresidents (other than U.S. residents) may not exceed 25%, with no individual owning more than 10%.

Crossing 10% or 25% threshold generally requires prior notification. Any company acquiring 25% or some lesser amount that constitutes control requires prior approval. Bank holding companies are required to obtain prior approval to acquire 5% or more of a bank's shares. There are substantial restrictions on the activities of companies that own banks.

Yes.

No.

Yes.

Yes.

Yes.

Yes.

Yes.

Yes.

Italian Banking Association (ABI) code of self-regulation applies to the advertising of rates and conditions offered by banks. Banks incorporated as joint-stock companies are required to show the amount of their paid-up capital and reserves on all letters, publications, and advertisements.

Banks may not impose charges if they choose to cash government checks.

Numerous state and federal laws, including the Equal Credit Opportunity Act and the Home Mortgage Disclosure Act. The Community Reinvestment Act requires supervisory agencies to assess a bank's performance in meeting the credit needs of its entire community, including low- and moderate-income neighborhoods.

Entry may be either through a branch or by the establishment of a subsidiary. Although there are no formal restrictions on foreign bank entry, a non-EC bank may be denied access if the bank's home country does not grant French banks reciprocal access.

Entry may be through a branch or a newly established or acquired subsidiary. A non-EC bank may be denied access if the bank's home country does not offer Italian banks reciprocal national treatment.

Entry is only through a Canadian bank subsidiary.

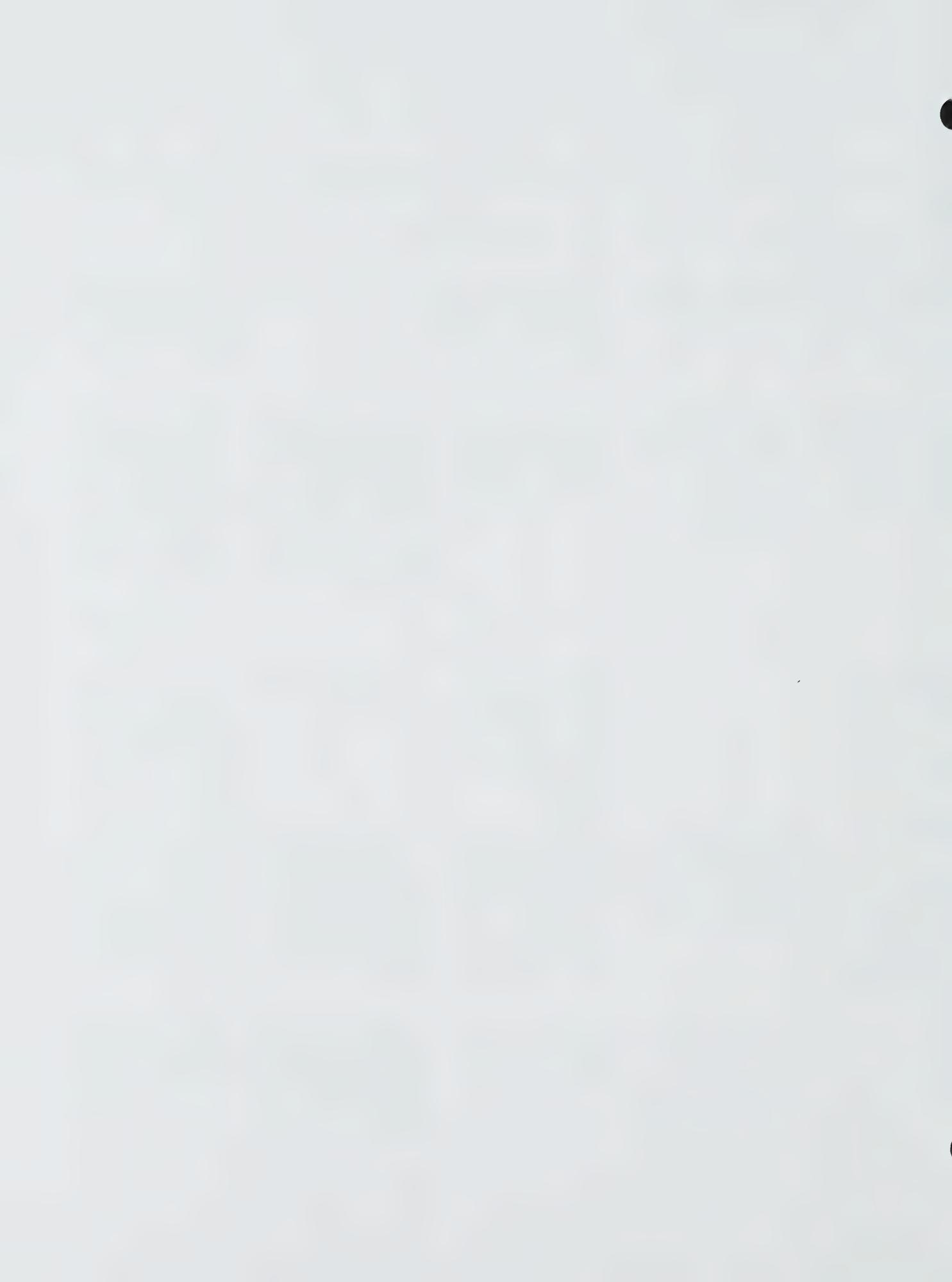
In order to establish a subsidiary, the Minister of Finance must be satisfied that Canadian banks will receive similar competitive opportunity in the home country of the parent of the entering subsidiary.

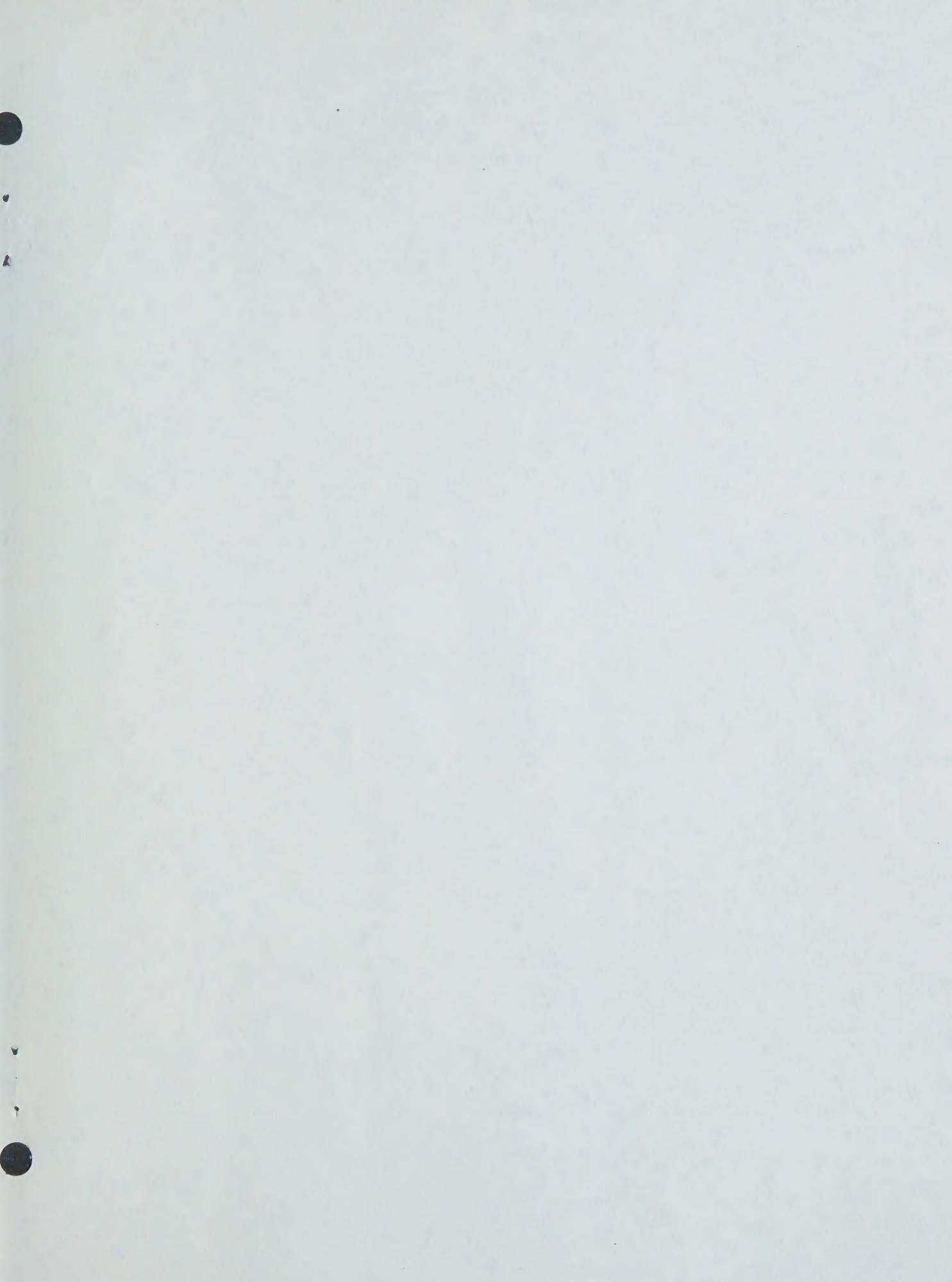
Entry may be through an agency, a branch, or a subsidiary. There is no federal reciprocity requirement for entry. However, some States ban entry by foreign banks through one or more of the three methods or mandate that reciprocal access be available before permitting entry.

As of December 15, 1989, the "economic need" criterion is no longer taken into consideration in the authorization procedure.

Non-U.S. foreign banks may not hold in the aggregate more than 12% of all domestic bank assets. Beyond the first office, non-U.S. foreign bank subsidiaries may not open additional branches without the prior permission of the Minister of Finance.

A reciprocal national treatment standard applies to a foreign bank seeking to obtain primary dealer status.









| | | |
|----------|-------|----------|
| YELLOW | 25070 | JAUNE |
| *BLACK | 25071 | NOIR* |
| *BLUE | 25072 | BLEU* |
| RL. BLUE | 25073 | RL. BLEU |
| *GREY | 25074 | GRIS* |
| GREEN | 25075 | VERT |
| RUST | 25078 | ROUILLE |
| EX RED | 25079 | ROUGE |

ACCO CANADA INC.
WILLOWDALE, ONTARIO

• INDICATES
75% RECYCLED
25% POST-
CONSUMER FIBRE



*SIGNIFIE 75 %
FIBRES RECYCLÉES,
25 % DÉCHETS DE
CONSOMMATION

BALANCE OF PRODUCTS
25% RECYCLED

AUTRES PRODUITS:
25 % FIBRES RECYCLÉES



0 5050525074 5